

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 FEA-01 OES-03 INT-05

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SUBJECT: POSTPONEMENT OF SECOND INTEGRATED STEEL MILL PROJECT

1. THE DPM HAS INFORMED US THAT THE ROKG HAS DECIDED TO POSTPONE THE SECOND INTEGRATED STEEL MILL PROJECT UNTIL 1977. THIS DECISION WAS TAKEN AT A MEETING CHAIRED BY PRESIDENT PARK ON MARCH 8.

2. PRIOR TO THE MARCH 8 MEETING, THE STEEL PROJECT HAD BEEN THE SUBJECT OF SEVERAL CABINET LEVEL MEETINGS HELD TO REVIEW THREE ALTERNATIVE PROPOSALS FOR PROCEEDING WITH THE DEVELOPMENT OF THE STEEL INDUSTRY PARTICULARLY THE CONSTRUCTION OF A HEAVY ROLLING MILL REQUIRED TO SUPPLY STEEL PLATE FOR THE SHIPBUILDING INDUSTRY. THESE PROPOSALS WERE: 1) PROCEED WITH THE DEVELOPMENT OF A SECOND INTEGRATED STEEL MILL ALONG THE LINES RECOMMENDED BY US STEEL ENGINEERING AND CONSULTANTS (USEC) AT A NEW SITE, YEONG HEE, 60 MILES NORTH OF POHANG BUT GIVING PRIORITY TO THE CONSTRUCTION OF A HEAVY ROLLING MILL WHICH WOULD COME ON STEAM USING IMPORTED BILLET APPROXIMATELY ONE YEAR BEFORE

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THE COMPLETION OF THE MAIN PLANT. 2) ACCELERATE THE

EXPANSION OF THE POHANG MILL GIVING PRIORITY TO THE CONSTRUCTION OF A HEAVY ROLLING MILL, AND 3) PROCEED WITH REDUCED VERSIONS OF BOTH THE NEW MILL AND THE PROPOSED POHANG EXPANSION PROVIDING FOR ROLLING MILLS AT EACH SITE.

3. A US STEEL TEAM HEADED BY EXECUTIVE VICE-PRESIDENT, J.D. ROLLINS, VISITED KOREA FROM FEB 5 TO FEB 10, 1975. BEFORE TO PARTICIPATE IN THE SECOND STEEL MILL PROJECT BY ESTABLISHING A USEC SUBSIDIARY IN KOREA TO UNDERTAKE THE DESIGN , CONSTRUCTION, SUPERVISION AND MANAGEMENT OF THE PROPOSED SECOND INTEGRATED MILL. US STEEL AGREED TO MEET THE ROKG REQUEST FOR EQUITY PARTICIPATION IN THE MILL BY OFFERING TO INVEST THE PROFITS OF THE PROPOSED USEC SUBSIDIARY IN THE PROJECT. US STEEL AGREED TO GIVE PRIORITY TO THE CONSTRUCTION OF A HEAVY ROLLING MILL TO PRODUCE TWO MILLION TONS OF STEEL PLATE ANNUALLY BY THE END OF 1978 FOR THE SHIPBUILDING INDUSTRY AT THE PROPOSED NEW SITE.

4. PRIOR TO THE ARRIVAL OF THE US STEEL TEAM, THE MANAGEMENT OF POHANG STEEL CORPORATION HAD REVISED AND ENLARGED ITS EXPANSION PLANS TO AN EVENTUAL CAPACITY OF 8 MILLION TONS INCLUDING THE CONSTRUCTION OF A HEAVY ROLLING MILL CAPABLE OF PRODUCING 1.1 MILLION TONS OF FINISHED HEAVY PLATE ANNUALLY BY THE END OF 1977.

5. SUBSEQUENTLY, A COUNTERPROPOSAL WAS DEVELOPED TO PERMIT THE APPROVAL OF BOTH THE SECOND STEEL MILL PROJECT AND EXPANSION PLANS AT POHANG. THIS COMPROMISE PROVIDED FOR A HEAVY PLATE ROLLING MILL OF APPROXIMATELY ONE MILLION TONS ANNUAL CAPACITY AT EACH PLANT. US STEEL REPRESENTATIVES REJECTED THIS PROPOSAL STATING THAT ANYTHING LESS THAN A TWO MILLION TON PLATE MILL WOULD NOT BE ECONOMICALLY FEASIBLE.

6. ACCORDING TO THE DPM, THE DECISION TO POSTPONE THE SECOND INTEGRATED STEEL MILL WAS TAKEN AFTER HE HAD ADVISED THE PRESIDENT THAT IT WAS NOT POSSIBLE AT THIS TIME TO ASSUME THE FINANCIAL BURDEN OF BOTH THE SECOND STEEL MILL AND THE POHANG EXPANSION, AND THAT THE CONSTRUCTION OF THE LIMITED OFFICIAL USE

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ROLLING MILL AT POHANG WOULD INVOLVE A MUCH LOWER FINANCIAL OUTLAY AT THIS TIME, BUT WOULD PROVIDE FOR THE IN-COUNTRY PRODUCTION OF STEEL PLATE FOR THE SHIPBUILDING INDUSTRY BY 1977. NAM ALSO SAID THAT THE ROKG FEARED THAT NEGOTIATING A FINAL AGREEMENT WITH US STEEL PROBABLY WOULD HAVE BEEN DIFFICULT AND PROTRACTED.

7. WE UNDERSTAND THAT TAE, WAN SON, PRESIDENT OF THE KOREA

STEEL CORPORATION, WILL PROCEED TO PITTSBURGH TO ADVISE ROLLINS PERSONALLY OF THIS DECISION. NAM ALSO ADVISED US THAT FOR SEVERAL REASONS THE KOREA STEEL CORPORATION WHICH WAS ORGANIZED TO CONSTRUCT AND MANAGE THE SECOND STEEL MILL WILL BE LIQUIDATED.

8. FYI: CLEARLY THE CURRENT ECONOMIC SITUATION PARTICULARLY KOREA'S BALANCE OF PAYMENTS DIFFICULTIES WAS THE DECISIVE REASON FOR POSTPONEMENT OF THE SECOND STEEL MILL PROJECT AT THIS TIME. THE ROKG HAS NOT ABANDONED ITS PLANS FOR A SECOND STEEL MILL WHICH WILL BE REQUIRED IF THE CURRENT ESTIMATE OF A 13.5 MILLION TON DEMAND FOR FINISHED STEEL PRODUCTS BY 1981 REMAINS VALID. OBVIOUSLY THE PURPOSE OF TAE, WAN SON'S VISIT TO PITTSBURGH, IN ADDITION TO EXPLAINING THE REASONS FOR THE POSTPONEMENT, IS TO EXPRESS THE HOPE THAT US STEEL WILL RETAIN ITS INTERESTS IN PARTICIPATING IN THE PROJECT AS SUCH TIME AS IT CAN BE UNDERTAKEN. THE 1977 DATE FOR REACTIVATING THE SECOND STEEL MILL PROJECT IS TO BE REVIEWED IN LATE 1975. WE BELIEVE THAT THE INABILITY OF US STEEL TO OFFER ANY EQUITY PARTICIPATION BEYOND THE PROFITS OF THE PROPOSED USEC SUBSIDIARY WAS A FACTORY IN THE ROKG'S DECISION TO PROCEED WITH THE POHANG EXPANSION RATHER THAN THE SECOND STEEL MILL AT THIS TIME. WE UNDERSTAND FROM BOTH SUH, SUCK JOON, EPB ASSISTANT MINISTER FOR PLANNING, AND O, WON CHOL, SECOND SECRETARY FOR ECONOMIC AFFAIRS AT THE BLUE HOUSE, THAT FINANCING FOR THE 1.1 MILLION TON FINISHED PRODUCT HEAVY ROLLING MILL WILL PROBABLY BE OBTAINED FROM EUROPEAN SOURCES AND PROBABLY WILL BE USED TO PROCURE A ROLLING MILL OF AUSTRIAN MANUFACTURE. APPARENTLY THE EXPECTED JAPANESE FINANCING FOR THE ROLLING MILL HAS NOT MATERIALIZED. IN ADDITION TO THE CONSTRUCTION OF THE ROLLING MILL AT POHANG, THE GOVERNMENT INTENDS TO TELESCOPE THE SECOND AND THIRD EXPANSION PLANS FOR POHANG TO BRING ITS FINISHED PRODUCT LIMITED OFFICIAL USE

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CAPACITY UP TO 5.5 MILLION TONS BY THE END OF 1978. IN DISCUSSING THE FINANCING ARRANGEMENTS FOR THE THIRD STAGE EXPANSION OTHER THAN THE HEAVY ROLLING MILL, O, WON CHOL COMMENTED THAT THE ROKG INTENDS TO SOLICIT ALL SOURCES INCLUDING THE US EXIM BANK FOR THIS FINANCING. HE SAID THAT THE CONTROL BANK OF AUSTRIA HAD ALREADY EXPRESSED AN INTEREST IN PROVIDING UP TO 150 MILLION DOLLARS FOR THIS PURPOSE. WE UNDERSTAND THE DECISION TO LIQUIDATE THE KOREA STEEL CORPORATION REFLECTED IN PART THE ROKG DISSATISFACTION WITH FORMER DEPUTY PRIME MINISTER, TAE, WAN SON'S PERFORMANCE AS CORPORATE PRESIDENT. HE HAS BEEN DESIGNATED TO SUCCEED THE LATE KIM, SONG KON AS PRESIDENT OF THE KOREA CHAMBER OF COMMERCE. SNEIDER

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